

Further Thoughts Concerning a Possibility of  
an Injunction in the [REDACTED] Case

25X1A

I. The Contract Theory.

A. Implications of the Bliss Case.<sup>1</sup>

1. Government Arguments

The record on appeal and the briefs submitted in the Bliss case were most revealing as to the particular theories on which the Government based its case. Although it is not mentioned in the Supreme Court's opinion, the Bill of Complaint originally brought by the Government was based on two arguments. First, that the proposed action of releasing information concerning certain designs would have been a breach of the secrecy clause in the contract between the Navy and Bliss.

In addition to the designs covered by the contract there were five other general principles which the Government conceded might not have been included in the various contracts. Their second argument concerned these principles. The Navy claimed that it supplied them to the Bliss Co. and that their release would be a violation of the espionage law, then known as the National Defense Act. They attempted to include these general principles within the scope of the injunction on grounds that their release would be a violation of the laws of the U.S. and Navy regulations. This is indicated by paragraph 11 of the Bill of Complaint as follows:

"The said proposed action of defendant is contrary to the contracts of defendant . . . and that if defendants are permitted to carry out their intention it will be not only a violation of the contract, but a violation of the laws of the United States and the regulations of the Navy Department made in conformity therewith." (Record Page 9.)

In the Government's opening argument at the trial they continued their alternative contention that even if the five principles were not covered by the contract "nevertheless the plaintiff is entitled to restrain the defendant from disclosing the information communicated, because it is of such a secret and important nature in connection with the national defense as to be covered by the scope of the National Defense Act of March 3 1911 (36 Stat. 1084, 1085)".

1. U.S. v. E.W. Bliss Co., 224 F. 325 (1915)

CONFIDENTIAL

only the negative covenant

It appears that there was little question in the minds of counsel or the courts that an injunction would be the proper remedy to enforce the negative covenant relating to secrecy.

The following appeared as a footnote to the first paragraph of the argument in the Government's brief for the Supreme Court:

"No question having been raised as to the power of a court of equity to enter the injunction in this case, it is of course unnecessary to argue the point in the brief. It may be stated however, that the injunction was awarded in pursuance of the general equity jurisdiction to enjoin the breach of a negative contract. This branch of the equity jurisdiction is substantially coincident with the jurisdiction to compell specific performance of affirmative contracts, both being governed by the same rules and subject to the same limitations. In general, it may be said that a court of equity will enjoin a breach of a negative contract in every case in which it would decree a specific performance of an affirmative contract, the test in both instances being the inadequacy of a legal remedy of damages.

Power, Equity Jurisdiction, 3rd Ed., sections  
1341, 44.

Bispham, Principles of Equity, 9th Ed., sections 461, 462.

High on Injunctions, 4th Ed., section 1134.

This branch of the equity jurisdiction is peculiarly applicable to cases of threatened breach of contracts involving confidence and secrecy, for the reason that in cases of that kind there cannot in the nature of things be an adequate remedy at law. The owner of a secret device or process has in the secret a species of property which can only be protected by injunction; for once the secret is divulged its value is destroyed for all time and irreparable injury has been done.

Because of the manifest inadequacy of the legal remedy of damages in cases of this kind, the jurisdiction of equity to enjoin the violations of contracts of secrecy - whether the contract be express or implied from the relations of the parties - is firmly established and has often been applied.

High on Injunction, 4th Ed., sections 19, 984,  
1108.

Story, Equity Jurisdiction, 10th Ed., section 952.

00

Bispham, Principles of Equity, 9th Ed., section 427."

Unfortunately, reference is made to the secret device as being property. The implication is that because this property is the subject of the contract, then the contract will be enforced. I don't think it is necessary to have such a clear-cut underlying property interest in order to have equity enforce a contract. The contract right itself is sufficient basis for equity to intervene. Thus, even though it might be said that governmental intelligence is not the type of secret which can be classed as a property right, it is arguable that equity will enforce the contract right standing alone. This problem is discussed in another section, IC of the memorandum.

3. Interest of the Government which equity was asked to protect.

The following sections of the Complaint put forth the interest of the United States which the Government claims is threatened by the action of the defendants.

"Paragraph 12. Unless restrained by this court the defendant will carry into effect the threat made by it in its letter and thereby the United States will be greatly damaged in its good name and fame and its contracts threatened by contumely and its laws held of no effect.

"Paragraph 13. That the various acts and things complained of are unlawful and contrary to equity and good conscience, and tend to the injury of the orator in the premises. That your orator is without remedy in law, and can have no adequate relief except in an act of equity . . . . That the injury to the United States is not measurable in damages, is irreparable and cannot be compensated for by an action at law . . . ."

Notice that there seems to be a suggestion of national interest in addition to the contract right.

The defendants in their answer denied that their proposed action was either contrary to their contract or a violation of any law. They also moved to dismiss that part of the Government's complaint which dealt with the violation of the espionage laws, "for the reason which appears upon the face of the bill that such averments are insufficient to constitute a valid cause of equity."

CONFIDENTIAL

4. Court opinions.

a. Contract theory.

The trial court found no trouble in basing an injunction on the contract theory.<sup>2</sup> The only issue was what particular devices and designs were included in the contract. The court states:

"The contract provision indicates, as the evidence shows, that this method (the secrecy clause) was adopted as the most secure and effective method of protecting its interest. There would be no security for that interest if the defendant, incorporating devices furnished by the Government could afterwards sell those devices to other persons or governments unless the Navy Department could establish patentable invention in each instance."  
(Record Page 270.)

- N Notice here that by implication the government's interest is identified with keeping national defense secrets secure from other governments. However, in addressing itself to the alternative argument the trial court clearly indicates that it is a "property right" which it is protecting. It goes on to equate these with "contract rights."<sup>3</sup>

On appeal Judge Cox, of the Circuit Court limits his opinion to an interpretation of the contract. In summing up he says this:

"Throughout the entire record, in the contracts, correspondence and dealings of the parties, the importance of secrecy is everywhere manifest. The nature of the services rendered was such that secrecy might almost be implied. It is difficult to imagine a nation giving to one of its citizens contracts to manufacture implements necessary to the national defense and permitting that citizen to disclose the construction of such implements or sell it to another nation. The very nature of the service makes the construction urged by the defendant untenable. We are of the opinion, therefore, that the injunction should include all designs, drawings, plans and specifications used by the defendant in making the Bliss-Leavitt torpedo for the government which were approved by the Ordnance Bureau, notice of which was given to the Bliss Company pursuant to the provisions of clauses 19 and 20 of the contracts in question."

2. 224 F. 325 (1915)
3. See Trial Court's treatment of the Government's alternative statutory argument, section IA4b infra.
4. 224 F. 325, at 332

CONFIDENTIAL

It is interesting that he suggests secrecy might be implied in the absence of a contract. This is additional support to the underlying feeling of the court in this case that national defense secrets are something which equity will protect.

b. Statutory theory.

As to the Government's alternative argument the trial court said this:

"The government further contends that by virtue of the National Defense Act of 1911 the defendant should be restricted from disclosing, and therefore from making and selling, torpedoes containing not only all the devices already considered, but several others (specified above), which, although suggested to the defendant by the complainant with more or less particularity, were actually worked out by the defendant, and were not accompanied by any actual design, or by the notice required by the restrictive covenant. I am of the opinion that such a contention is not sound. The National Defense Act is a criminal statute, and a court of equity ordinarily has no jurisdiction to enjoin the commission of a crime. When, however, some interference, actual or threatened, with property or proprietary rights appears, the jurisdiction of a court of equity is not ousted by the fact that such interference is accompanied by, or is itself, a violation of the criminal law. If, in this instance, the exhibition and demonstration of the existing type of Bliss-Leavitt torpedo to any other person or government be a violation of the penal statute, doubtless the defendant would be subject to prosecution for the offense; if such exhibition and demonstration violates the property rights of the government, no doubt the court may grant such equitable relief as the case requires; but the fact that it was a violation of the criminal law would not be material to the consideration of equitable relief. Now, the complaint does not set up the violation of the penal statute as a separate cause of action, but avers that the defendant intends "thereby to violate the laws of the United States," and prays that the defendant be enjoined from violating such laws. But the court can grant relief in this case only to prevent a violation of the complainant's contract rights. And, apart from the rights acquired by the government pursuant to the terms of the agreement, the Bliss-Leavitt torpedo is the defendant's property."

On the contract theory the trial court granted the injunction as to some, but not all of the devices which the Government contended

CONFIDENTIAL



were covered by the contract. Both parties appealed and the Circuit Court affirmed the decision and enlarged the scope of the injunction. The defendant appealed to the Supreme Court and the Government also entered a formal appeal contending the injunction should include those principles not covered by the contract, although they did not argue this, limiting themselves to answering the defendant's appeal.

As to the statutory theory, the Circuit Court concurred in the trial court's dismissal of the Government's argument based on the National Defense Act and the Government did not press this point before the Supreme Court but apparently accepted it. The Supreme Court affirmed the decision. The opinion is discussed in the first memorandum.

#### 5. Conclusion.

This case can, I think, be used in strong support of the contention that the courts and even the Supreme Court will bring an injunction to restrain threatened breach of a secrecy agreement, and in so doing they will make at least passing reference to the interest of the Government in security and national defense. If opposing counsel should contend that there is no property interest present which equity will protect, this case would not be particularly helpful in rebutting this argument. The designs for torpedoes appear to be more clearly property rights than do governmental intelligence secrets.

It also appears clear from this case that an argument based on enjoining an illegal act will not stand by itself. In other words the fact that the act to be enjoined is a criminal act will not make a stronger case. The point of most of the cases concerning injunctions of criminal acts is that that fact will not make a weaker case, and as long as there are other bases for equity to take jurisdiction, the criminality of the act will not bar an injunction. This seems to be the majority American view.

Note, however, that this does not apply where there is a statute which provides for peace bonds or injunctions for criminal acts. This is discussed in a following section of the memorandum.

#### B. Cases Involving Contracts for Secrets Other Than Trade Secrets.

A contract to keep a trade secret can be enforced by equity not only because of the contract right, but because the underlying secret is considered as property and therefore a proper interest for equity to protect.

CONFIDENTIAL

Because the secrets which we contract to protect are not so clearly property interests of the Government, it is useful to examine cases concerning secrecy agreement with underlying subject matter closer in nature to intelligence. Such cases are provided in the field of the so called mercantile or credit agencies such as Dun and Bradstreet. Granted, that they are in business for profit rather than national defense, but nevertheless they are collecting and distributing intelligence.

The leading case of this type is Bradstreet British v. Mitchell,<sup>5</sup> Bradstreet was a credit reporting firm which furnished business intelligence to its subscribers. Each subscriber signed a contract which had a secrecy provision as follows:

"All information furnished by this company to subscribers is supplied in the strictest confidence for exclusive use for the latter's business. The subscriber understands that under no circumstances will he reveal either the nature of the information or the fact that it has been supplied by the company to any party."

The X company, suspecting that its business was declining because of bad reports issued by the plaintiff, instructed one of its directors, the defendant in this case, to set up a dummy corporation, subscribe to the service, and report what information was provided concerning the X company. This scheme was productive and lead to a successful libel suit by X against the plaintiff on information furnished to the defendant. In this suit the plaintiff is suing the defendant for damages in the amount of the libel judgment on a breach of the secrecy contract. It also seeks an injunction against further disclosures of the defendant, apparently to associated companies.

The court held that the plaintiff was entitled to nominal damages for the breach of contract and would be awarded an injunction at any time the plaintiff thought it necessary. (Since the libel judgment was considered a result of a wrong committed by the plaintiff, it was not considered as damages arising from the breach of contract.)

There was no question that this was an enforceable contract or that there was an interest which equity would enforce. There is no talk of a property right in the information, but merely whether it was a valid contract. Having found it was, equity was willing to enjoin its breach.

This is about the closest that we can come to this Agency's situation. Granted there is still an element of dollars and cents, and the property right is not so obvious as in torpedo designs. Moreover, the problem presented did not concern use of the information

5. 1 ch. 190 (1933), 102 L.U. Ch. 34.

by a competitor which would bring it close to the trade secret cases. The fact that the particular information was the plaintiff's stock in trade was not significant in this suit, but only that there was a threatened breach of contract.

There is another series of cases which is headed by Chicago Board of Trade v. Christie.<sup>6</sup> They concern the right of property in commodity quotations collected and furnished to subscribers on a confidential basis. In the Chicago Board of Trade case Justice Holmes said:

"The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work if they might, does not authorize them to steal the plaintiff's."

He then granted an injunction, not against the subscriber, but against a third party who was using the information.<sup>7</sup> There are a number of similar cases<sup>8</sup> all of which have in common the protection of the collected information which is sold to customers. Thus, this situation can be distinguished in so far as the intelligence collected is old and the cases concern matters which are damaging to the business property of the intelligence.

C. Equity Jurisdiction over Contract Rights Without Underlying Property Rights.

There remains the problem which is basic to this case - will equity enforce a valid contract whether it deals with a property right or not? As is indicated by the foregoing discussion, the above theories and cases can all be distinguished from the case at hand by the nature of the government's interest in keeping its intelligence secrets secure. Although close, intelligence secrets are not quite the same as a torpedo design or commercial information collected as a business. The real interest of the Government in keeping intelligence confidential is the public interest of national defense. I have not found a case in which a court of equity has directly faced this problem, although it came close in the Bliss case.

It should be noted here that this difficulty is emphasized only because it is the strongest argument against an injunction assuming a valid contract. It is very possible that this would present no problem for a court. If it were not called to the court's attention, the court should follow the unanimous view that negative covenants

6. 198 U.S. 236 (1905)

7. See part II, *infra*.

8. Dodge Co. v. Construction Information Co., 66 N.E. 204; Board of Trade v. C.B. Thomson Commission Co., 103 Fed. 902; Board of Trade v. Eddison-Krull Co., 109 Fed. 705; National Teleg. News Co. v. Western Union Teleg. Co., 119 Fed. 294; Illinois Commission Co. v. Cleveland Teleg. Co., 119 Fed. 301.



in valid employment contracts to maintain employer's secrets will be enforced by injunction, even after the employment ceases. This has been the holding in every case examined so far. However, if the court does consider this problem, a strong argument can be made for the theory that a contract right is a property right which equity will protect regardless of the underlying subject of the contract. Many cases provide statements similar to the following: "Contract rights stand high in the scale of property rights."<sup>9</sup> Among this group the leading case is Lynch v. United States.<sup>10</sup> The contract concerned in that case was a war risk insurance policy. Congress passed a statute which in effect withdrew the right to sue on these contracts. The plaintiff, a holder of a policy, contended that the contract right was a property right and thus subject to the Fifth Amendment which prohibits the taking of property without just compensation. Justice Holmes writing for the court agreed.

"The Fifth Amendment commands that property be not taken without just compensation. Valid contracts are property, whether the obligor be a private individuality, a municipality, a State, or the United States. Rights against the United States arising out of a contract with it are protected by the Fifth Amendment."

The fact that the policies were contracts with a non-business purpose made no difference to the court. This fact makes them more analogous to our secrecy agreements.

The case cited above dealt with a contract with pecuniary aspects which suggest some type of property rights. Thus to have a strong argument we must find cases in which there is no clear property right underlying the contract. McClintock in his work on equity has focused on this exact problem. He states:<sup>11</sup>

"Where the right is founded on a contract, equity will treat it as a property right and enforce it, even if its nature is such that it would not be enforced in the absence of the contract, as where it is a right to family relationships,<sup>12</sup> or a right to seniority in employment."<sup>13</sup>

It would seem from the above, that should the issue be raised, a strong argument can be made in favor of the contention that the rights

9. Lucas v. Schneider, 47 F. 2d 1006 at 1008 (1931)
10. 292 US 71 (1933)
11. McClintock Equity, 2nd Ed., sec. 154
12. Wood v. Carter, 103 S.W. 2d 663 (1937); Comment, 22 Minn. L. Rev. 586 (1938)
13. Ledford v. Chicago, M. St. P. & P. R. Co., 18 NE 2d 568 (1939); Comment 27 Ill. Bar J. 306 (1939)

CONFIDENTIAL

which accrue from our secrecy agreements are contract rights which equity will recognize and enforce by injunction.

### B. Injunction against Third Parties

Once it is established that there is a valid contract that equity will enforce, an injunction will be issued to restrain a third party from acts which will induce or cause a breach, even though he is not a party to the contract.<sup>14</sup> Thus, for instance, Time Magazine could be enjoined from printing Kierman's article or even dealing further with him.

## II. Injunctions Based on Protection of the Public Interest<sup>15</sup>

If for some reason the contract argument fails, there is another theory which possibly might provide a basis for equity jurisdiction. That is the evident willingness of some courts in particular situations to grant injunctions sought by the Government to protect the public interest. One of the leading cases of this type is in re Debs.<sup>16</sup> The case involved a writ of habeas corpus to release Debs and others from jail where he had been confined for contempt of court in disobeying an injunction. The injunction was issued by a district court to restrain Debs from stopping train service in and out of Chicago. The argument was made that the Government was not the proper party to bring suit, as it had no property interest which was being threatened. The injunction however was affirmed on the ground that the Government would in fact have a property interest in the mails which were being carried on the trains.

However, Justice Brewer in the Supreme Court opinion goes further and says:

"We do not care to place our decision upon this ground alone. Every government, entrusted by the very terms of its being with powers and duties to be exercised and discharged for the general welfare, has a right to apply to its own courts for any proper assistance in the exercise of the one and the discharge of the other, and it is no sufficient answer to its appeal to one of those courts that it has no pecuniary interest in the matter. The obligations which it is under to promote the interest of all and to prevent the wrongdoing of one resulting in injury to the general welfare is often of itself sufficient to give it a standing in court."

14. McClintock on Equity. 2nd ed., Sec. 154

15. See generally. American Jurisprudence, Injunction sec. 137; Corpus Juris Sec., Injunctions sec. 123, 124

16. 158 US 564 (1894)

Unfortunately, by the nature of the case this is dictum.

There are also numerous state cases<sup>17</sup> which supposedly stand for the proposition that equity will grant relief for the general public welfare, even if the Government has no pecuniary interest in the matter. However, upon close examination these cases are usually public nuisance situations, and are not particularly analogous to the problems of the Agency. The rights threatened are more directly related to the public interest than are intelligence secrets. For instance they concern blockage of public highways, violation of liquor ordinances and gambling operations. An argument can be made that the interest of the Government involved in keeping intelligence secrets is in fact much greater than the rights in these cases. However, the flavor is not the same, and I think that the argument would not be a particularly strong one standing alone, but might add support to the contract theory.

### III. Applicability of Title 18 USC 3043

This section of the code is entitled "Security of the peace and good behavior" and states:

"The justices or judges of the United States, the United States commissioners, and the judges and other magistrates of the several States, who are or may be authorized by law to make arrests for offenses against the United States, shall have the like authority to hold to security of the peace and for good behavior, in cases arising under the Constitution and laws of the United States, as may be lawfully exercised by any judge or justice of the peace of the respective States, in cases cognizable before them."

It might be possible to use this little known section to prevent [redacted] from going through with his threat. Without further historical research<sup>18</sup> is not clear just what offenses the section is meant to cover. In the absence of further evidence it can be assumed that it was designed to provide for a peace bond as understood at common law.

- 25X1A
17. People ex rel. Att Gen. v. Tool, 86 F 224; Pompano Horse Club v. State 111 So. 961 (1927); People v. St. Louis, 10 SW 351 (1848); State v. Chicago, B & O R. Co., 130 N.W. 295; contra, U.S. Exp. Co. v. State, 139 S.W. 637 (1911)
  18. The cases which deal with the section are few. The two which may be useful are not immediately available.

If this is the case, it is unlikely that it could be used to prevent a violation of the espionage laws. General commentaries<sup>19</sup> concerning peace bonds consider them as means of preventing a breach of the peace. This usually concerns some sort of violent or threatening behaviour. Something similar to a public nuisance and/or an overtone of physical harm is usually involved. So far as can be determined, a peace bond has not been used to prevent crimes similar to espionage.

19. American Jurisprudence, Breach of Peace, sec 19-24, Criminal Law, sec. 557.  
Corpus Juris Secundum, Breach of Peace, sec. 17-26.